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report so as to preclude reimbursement until appropriate resolution thereof. At the present time the contractor has reimbursed the subcontractor for \$116,697, leaving a reserve of \$3,000. until final settlement is effected.

2. Comments on Contract:

The contract, dated 26 June 1958, included three (3) amendments prior to the termination date of 16 December 1958. As of the latter date the contract contained the following reimbursement limitations:

Pasadena Subcontract:		
Estimated Cost		\$141,735
Fixed fee		10,490
Total Subcontract		\$152,245
Additional Pasadena estimate to complete		2,152
Total		\$154,397
G&A on above total		29,135
Total estimated cost to prime contractor		\$183,532 (A)
Prime Contractor's estimated cost		\$136,915 (B)
Total estimated cost		\$320,447
Fixed Fee:		
on (A) @ 5%	\$9,176	
on (B)	\$10,425	19,601
Total Contract Value		<u>\$340,048</u>

3. Summary of Audit:

a. The auditor's recommendations shown below are based upon the following considerations:

Column 2- For acceptance: On the basis of appropriate tests the auditor is of the opinion that the costs included in this column are properly supported and are reimbursable under contract terms.

Column 3- For Non-Acceptance: The auditor is of the opinion that the amounts listed are not reimbursable under the terms of the contract.

Column 4 -For Further Consideration: In general such items are included in this column for the following reasons:

- (1) The item is not presently susceptible to an audit or accounting determination.
- (2) Proper approvals or documentary evidence are lacking or insufficient.

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b. The contractor's final proposal reflects a claim against the Government in the amount of \$49,004, whereas the findings of the auditor show an amount due the contractor of \$17,532. before giving effect to balance of earned fee claimed, \$3,344. and other items recommended for further consideration, and the contractor's offer for residual inventory items.

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4. Auditor's Recommendations:

Detailed supporting information is available in the auditor's working papers for the following recommendations:

	<u>Recommended for</u> <u>Non-</u> <u>Acceptance</u>	<u>Further</u> <u>Consideration</u>
a. Other Costs	\$ 226.	\$ 99,109.
b. GSA Expense	3,621.	20,749.
c. Settlements with Subcontractors		21,518.
d. Settlement Expenses	47.	
Total costs recommended for		
Non-Acceptance	\$ 3,894.	
Further Consideration		\$141,376.

Individual items of the above summary are discussed in the following paragraphs:

a. Other Costs:

(1) Partial payments to subcontractor (See Par. 1b) (1958 Costs - \$40,744; 1959 Costs - \$77,435)		98,179.
(2) 1959 overhead expense (Exhibit A)	\$47.	
(3) Subsistence expenses while traveling in excess of \$15. per diem (considered excessive in accordance with AFPI Sec 15-204 (v)) (1958 Costs - \$69; 1959 Costs - \$50)	\$179.	
(4) Consulting engineering and technical services: Work on Cooler Program by [] [] Graduate Engineer under consulting agreement dated 9/25/57 on a T&M basis @ \$7.50 per hr., not approved by Contracting Officer: 124 hours @ \$7.50		930.
Total Other Costs	<u>226.</u>	<u>99,109.</u>

b. <u>GSA Expense</u> (Exhibit B)	<u>3,621.</u>	<u>20,749.</u>
c. <u>Settlements With Subcontractors</u> (See Par. 1b)	<u>\$ -</u>	<u>21,518</u>
d. <u>Settlement Expenses:</u> Engineering Dept. - 154 hrs. @ \$.01 (See Exhibit A)	\$ 2.	
GSA - Base \$1,742 X Non-Accepted Rate (Exhibit B) of 2.62%	45.	
Total Settlement Expenses	<u>\$ 47.</u>	<u>\$ --</u>

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5. Contractor's Voluntary Deductions and Inventory Accounting:

The Contractor has voluntarily excluded unallowable costs of \$9,819. from his claim, of which \$8,722 was directly due to the auditor's efforts.

In addition, he was assisted by the auditor in satisfactorily accounting on Inventory Schedules B for all accountable items of contractor-acquired materials and equipment procured under the contract; in connection with our cost audit we furnished to him a list of all contractor-acquired items considered accountable.

6. Fixed fee claimed -- \$16,021:

a. The contractor has claimed in its final proposal a total earned fee of \$16,021, of which \$12,677 has been previously reimbursed; based upon estimated completion percentages of both the subcontractor's and prime contractor's portion of the work, computed as follows:

	<u>On Subcontractor's Costs and Fixed Fee and GSA to Prime Contractor</u>	<u>On Prime Contractor's Costs</u>	<u>Total</u>
On Basic Contract	\$2,962. (A)	\$3,925. (A)	\$6,887.
Amendment No. 1	879. (A)	856. (A)	1,735.
Amendment No. 2	1,305. (A)	1,948. (A)	3,253.
Amendment No. 3	3,518 (B)	628. (C)	4,146.
Total	<u>\$8,664.</u>	<u>\$7,357.</u>	<u>\$16,021.</u>

(A) 100% of completion

(B) 87.3% of completion, per subcontractor's final proposal.

(C) 17% of completion.

b. Inasmuch as the fee to be approved depends solely on the determination of the responsible contracting officer, no recommendation other than for the further consideration of the Contracting Officer can be made.

7. Subcontractor's Settlement Proposal:

In reviewing a copy of the Subcontractor's final settlement proposal it was observed that the fixed fee was computed incorrectly, as follows:

	<u>Subcontractor's Proposal</u>	<u>Correct Calculation</u>
Basic subcontract (A)	\$ 3,306	\$ 3,306
Amendment No. 1 (A)	1,013	1,013
Amendment No. 2 (A)	1,485	1,485
Amendment No. 3 (B)	3,922 (c)	4,091
TOTAL	<u>\$ 9,726</u>	<u>\$ 9,895</u>

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- (A) 100% of completion.
- (B) 87.3% of completion, per subcontractor's final proposal.
- (C) Erroneously computed @ 83.7%

The auditor, for this proposal, has not given effect to this difference but refers it for the further consideration of the contracting officer at the time of negotiations. This results in a total understatement of this claim by \$203, calculated as follows:

Difference shown above	\$169.
GMA @ claimed rate (20%)	34.
Total understatement	<u>\$203</u>

8. Property Clearance:

a. As mentioned in Par. 3b the contractor has not as yet submitted an offer for the residual inventory items, but he indicates that this will be done in the near future. Therefore, the costs recommended for acceptance in Par. 3c, \$17,532, are subject to further reduction on account of such offer.

b. We are unable at this time to verify the Inventory Schedule B covering Government-furnished materials and equipment. We do not have a complete listing of such items since Ref. (a) contains only a partial list thereof. Therefore this schedule is referred to the contracting officer for appropriate property accountability and clearance.

c. As indicated in Par. 5, we have verified the six (6) Inventory Schedules B covering contractor-acquired direct materials and capital equipment.

d. In Ref. (d) the auditor indicated to the responsible Project auditor of the subcontractor the items of GFE furnished by the prime contractor to the subcontractor and requested confirmation thereof. To date we are still awaiting reply to this communication. Confirmation of these items should be furnished in the audit report of the subcontractor.

9. Contractor's Reaction to Auditor's Adjustments:

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a. Items concurred in:

(1) Consulting Services, \$930, appears to be an erroneous charge which is applicable to another contract. This amount plus \$186 applicable GMA (@ 20%) is conceded by the Contractor.

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(2) Subcontractor's basic costs of \$119,697 recommended for further consideration plus \$22,737 G&A thereon (\$2,150 for non-acceptance and \$20,587 for further consideration) should be held in abeyance pending completion of audit.

(b) Items Not Concurred In:

(1) Travel Expense, \$179, plus \$33. applicable G&A since company policy permits reimbursement to employees for actual expenses.

(2) 1959 overhead Expense \$47, plus \$9 applicable G&A, since 1959 fiscal year was not comparable with 1958 and most of the 1958 adjustments were due to reclassification of quality control expense rather than disallowances.

(3) 1958 G&A Expense due to rate difference, \$69 since actual negotiated rate was 0.65% for R&D rather than 0.6%. (This would result in a restoration of only \$17 out of the \$69 questioned).

c. Items Reserved for Negotiation:

(1) 1959 G&A Expense due to rate difference, \$1,336. Contractor would be agreeable to negotiate @ 18% rather than the 17.38% utilized by the auditor because R&D expense was higher in 1959. However, taking this factor into account would only increase the rate to 17.6%.

(2) Settlement Expense, \$47. should be treated in the same manner as other 1959 overhead and G&A expenses.

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Eastern District
Auditor General

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